

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

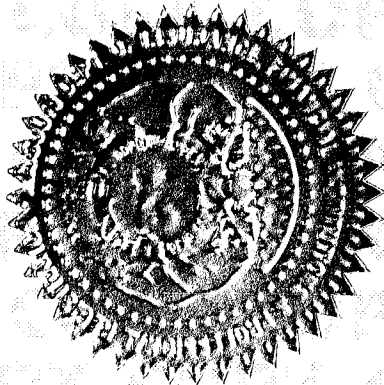
RE: Examination Report of Missouri Employers Mutual Insurance Company as of December 31, 2007

ORDER

After full consideration and review of the report of the financial examination of Missouri Employers Mutual Insurance Company for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Linda Bohrer, Acting Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Missouri Employers Mutual Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this November 25, 2008.



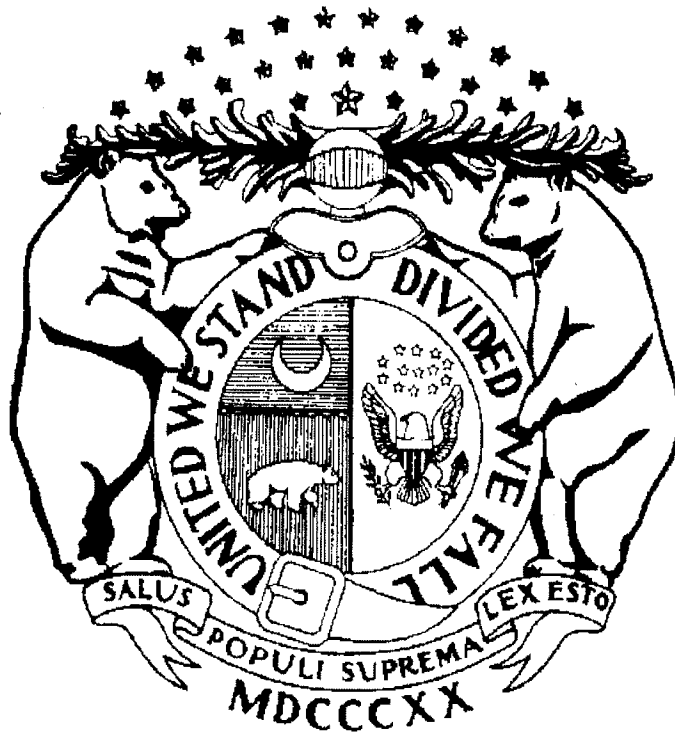
Linda Bohrer

Linda Bohrer, Acting Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
**MISSOURI EMPLOYERS MUTUAL
INSURANCE COMPANY**

AS OF
DECEMBER 31, 2007

FILED
DEC 05 2008
DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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Columbia, Missouri
October 17, 2008

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Secretary, Midwestern Zone, NAIC

Honorable Linda R. Bohrer, Acting Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Ladies and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Missouri Employers Mutual Insurance Company

hereinafter referred to as such, as MEM, or as the Company. Its administrative office is located at 101 North Keene Street, Columbia, Missouri, 65201, telephone number (573) 499-9714. This examination began on June 9, 2008, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of MEM was made as of December 31, 2004, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2005, through December 31, 2007, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, Swink, Fiehler & Company, P.C., of St. Louis, Missouri, for its audit covering the period from January 1, 2007, through December 31, 2007. Information relied upon included fraud risk assessment, legal representation letters, bank confirmations, and testing of various asset and liability balances.

Comments - Previous Examination

The previous financial examination of MEM was conducted by the Missouri DIFP for the period ending December 31, 2004. There were no general comments or recommendations in the previous examination report. There were a few immaterial examination changes in the Notes to the Financial Statements section of the prior examination report. However, there were no recommendations resulting from these examination changes.

HISTORY

General

MEM was created pursuant to Sections 287.900 to 287.920 of the Revised Statutes of Missouri (RSMo), which is referred to as the "Missouri Employers Mutual Insurance Company Act." Section 287.920(5) RSMo specifies that the Company is "subject to all provisions of the statutes which relate to private insurance carriers." In compliance with this statute, MEM operates under the statutes in Chapter 379 RSMo (Insurance Other Than Life) for property and casualty insurers.

The Company was created for the purpose of insuring Missouri employers against liability for workers' compensation, occupational disease, and employers' liability coverage. The laws creating MEM were enacted in 1993. The Company was subsequently organized on September 16, 1994 and commenced business on March 1, 1995. The initial Board of Directors were appointed by the Governor of the State of Missouri. The initial capitalization of MEM was from \$5 million received from the State of Missouri, as consideration for a surplus note that was issued in 1995. The note and all accrued interest was repaid on September 16, 1999. MEM was granted tax-exempt status by the Internal Revenue Service, as of December 1, 1998.

The Company was organized and operates as a domestic mutual insurance company, but it is not an agency of the State of Missouri. However, the Company's Bylaws require that three of the five directors serving on the Board of Directors shall be appointed by the Governor of Missouri, subsequent to election by the policyholders. If the Governor rejects a director candidate, the policyholders must elect a new director candidate to be submitted to the Governor for appointment.

Capital Stock

The Company was organized as a mutual entity and therefore, does not have any capital stock ownership. The Company is owned 100% by its policyholders.

Dividends

There were no dividends declared or paid to policyholders during the examination period.

Management

The management of the Company is vested in a Board of Directors, which are elected by the policyholders. The Company's Bylaws specify that the Board of Directors shall consist of five directors. The Board of Directors appointed and serving, as of December 31, 2007, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
James J. Jura*, Chairman	Springfield, MO	CEO, Associated Electric Cooperative
Andrew R. Gingrich* ¹	Columbia, MO	CFO and Treasurer, MBS Textbook Exchange, Inc.
Bob L. McDonald*	Sedalia, MO	Chairman Emeritus, Third National Bank
Douglas D. Morgan	Florissant, MO	President, Self Storage Systems, Inc.
Karen L. Pletz	Kansas City, MO	President and CEO, Kansas City University of Medicine and Biosciences

* Appointed by the Governor of Missouri, as discussed above under History – General.

¹ Mr. Gingrich's term expired on July 1, 2008 and he was replaced by Stuart K. Campbell, pending appointment by the Governor of Missouri.

Committees

The Bylaws require a nominating committee of the Board of Directors and allow for the creation of other committees, if authorized by a resolution of the Board of Directors. The appointed committees and members, as of December 31, 2007, were as follows:

<u>Audit Committee</u>	<u>Compensation Committee</u>
Andrew R. Gingrich	Bob L. McDonald
Douglas D. Morgan	Douglas D. Morgan
Karen L. Pletz	Karen L. Pletz
<u>Investment Committee</u>	<u>Nominating Committee</u>
Andrew R. Gingrich	Bob L. McDonald
Bob L. McDonald	Karen L. Pletz
Douglas D. Morgan	

Officers

The officers elected by the Board of Directors and serving as of December 31, 2007, were as follows:

<u>Officer</u>	<u>Position</u>
James J. Jura	Chairman of the Board
Dennis W. Smith	President and Chief Executive Officer
Bob L. McDonald ²	Secretary
Andrew R. Gingrich ³	Treasurer and Assistant Secretary
Dina S. Schultz ²	Chief Operating Officer
Paul B. Pheffer ³	Chief Financial Officer
Steven D. Millikan	Vice President - Public Affairs
Timothy D. Jackman	Vice President - Claims and Customer Services

² Ms. Schultz replaced Mr. McDonald as Secretary in July 2008.

³ Mr. Gingrich's term as a director expired on July 1, 2008 and he was not re-elected. Mr. Pheffer replaced Mr. Gingrich as Treasurer. The Assistant Secretary position was not filled after Mr. Gingrich's departure.

A new officer, Michael R. Kravchick, was elected in 2008 as Vice President of Sales, Marketing and Communications. This position was newly created.

Conflict of Interest

The Company has a policy that requires all officers, directors, and certain designated employees to complete a conflict of interest statement each year. The responses to the conflict of interest statements were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to either the Articles of Incorporation or the Bylaws during the period under examination.

The minutes of the Board of Directors' meetings, policyholder's meetings, and committee meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None during the examination period.

Surplus Debentures

A surplus note with a face amount of \$20,000,000 was issued on December 21, 2004 to Sigler & Company. The principal balance is due thirty (30) years after the issue date. The interest payable each quarter is based upon the 3-month London Interbank Offered Rate (LIBOR) plus 3.75%, which equaled an annual rate of 8.74%, as of December 31, 2007. Interest and principal payments may only be made with the prior approval of the Director of the DIFP. Total interest paid for the surplus note during the examination period was \$5,034,069.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

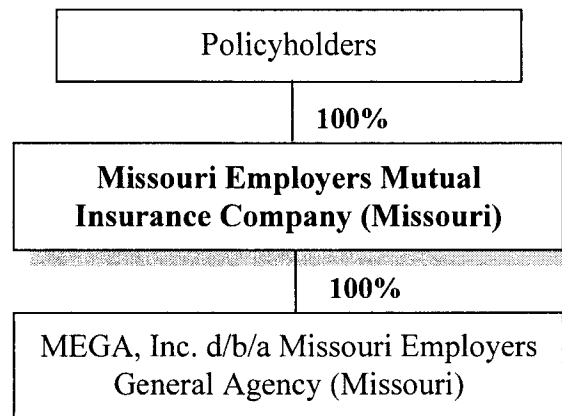
The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by MEM for each year of the examination period. MEM does not have any stockholders or a controlling entity due to its formation as a mutual insurer. The Company is ultimately controlled by its policyholders, which elect the Board of Directors.

The only other entity in the holding company system is MEM's subsidiary, MEGA, Inc., d/b/a Missouri Employers General Agency (MEGA). MEGA was utilized as the licensed agent for MEM risks insured outside of the State of Missouri through a fronting arrangement with unaffiliated ceding companies. MEGA's services were no longer needed when MEM contracted with a new ceding company, Argonaut Insurance Company, at the end of 2003. The new ceding company had its own licensed agents in the applicable states, which eliminated the need for MEGA to be a licensed agency for the fronting business.

MEGA became a shell entity at the end of 2005 and it has no active operations, as of the date of this report. The former MEGA employees were absorbed into MEM's operations. Management does not currently have any plans to liquidate MEGA in the event that a new business use could develop in the future.

Organizational Chart

The following chart depicts the ownership and affiliates of the Company, as of December 31, 2007:



Intercompany Transactions

The Company's only intercompany agreement in effect, as of December 31, 2007, is outlined below.

1. Type: General Operating Agreement

Affiliate: MEGA, Inc.

Effective: February 1, 2001

Terms: MEGA, Inc. will serve as a general agent for the Company to produce and issue policies for the employers that have employees working outside of the State of Missouri. The business produced by MEGA will be directly written by Argonaut Insurance Company and then assumed 100% by MEM. MEGA has the authority to underwrite and bind risks, in accordance with MEM policies, and to collect premiums. MEM will pay a commission of 14% to MEGA for out-of-state business and 6% for in-state business. MEM will provide various management services to MEGA including finance and accounting, information services, legal, marketing, human resources, executive oversight and other services. MEGA will pay monthly management fee, as calculated per Exhibit C, to MEM for these services,

Transactions with MEGA under the General Operating Agreement have ceased as of January 1, 2006. Management intends to terminate the Agreement in the near future.

The Company could not provide the amount of commissions paid by MEM to MEGA in 2005. MEGA paid management fees of \$148,944 to MEM in 2005. There were no transactions between MEM and MEGA, pursuant to the General Operating Agreement, during 2006 and 2007. As discussed previously, this was due to the elimination of MEGA's active business operations at the end of 2005.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond that covers losses resulting from dishonest or fraudulent acts of employees. The bond has a liability limit of \$1,000,000 with a \$50,000 deductible, which meets the minimum coverage recommended by the NAIC. The Company is also a named insured on the following insurance policies:

Property	Electronic Data Processing Property
General Liability	Employment Liability
Commercial Automobile	Directors' and Officers' Liability
Commercial Umbrella Liability	Workers' Compensation
Professional Services Liability	and Employers' Liability

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As of December 31, 2007, the Company had 178 employees located in its home office in Columbia, Missouri. Another 77 employees were located in the branch offices in Kansas City, St. Louis, and Springfield, Missouri.

A variety of standard benefits are provided to the employees. These benefits include the following insurance plans: health, dental, vision, life, accidental death and dismemberment, and disability. Other benefits include vacation, sick leave, cafeteria plan savings, tuition reimbursement, a 401(k) savings plan, a profit sharing plan, and an incentive compensation plan.

The Company matches 50% of employee contributions to the 401(k) savings plan up to 6% of the employee's salary. Profit sharing payments are generally 5% of an employee's salary if the Company meets profit requirements. The incentive plan payments vary depending on the profitability each year, but net income must exceed a 7% return on equity (GAAP basis surplus) to generate eligible funds for the incentive plan. Most employees' incentive payments are based upon a percentage of salary. Executive management employees receive varying percentages of a pool of incentive funds that are allocated for distribution. Nineteen executives were distributed a total pool of \$3,128,517 in incentive payments for 2007, which were paid in 2008.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP, as of December 31, 2007, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities to be Deposited). The funds on deposit as of December 31, 2007, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$1,300,000	\$1,381,149	\$1,317,589

Deposits with Other States

The Company did not have funds on deposit with any other states, as of December 31, 2007.

Other Deposits

The Company has funds on deposit with the U.S. Department of Labor, as required by the Longshore and Harbor Workers' Compensation Act. This deposit allows MEM to insure certain workers covered by this Act, although no such risks were insured during the examination period or currently. The funds on deposit with the U.S. Department of Labor, as of December 31, 2007, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$400,000	\$405,624	\$400,000

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

MEM is licensed as a property and casualty insurer by the Missouri DIFP under Chapter 379 RSMo (Insurance Other than Life). The Company is not licensed in any other states. However, the Company does have a fronting arrangement to assume risks of MEM policyholders that have employees located outside of the State of Missouri. A further description of this arrangement is included in the Reinsurance section of this report.

The Company's only line of business is workers' compensation, as prescribed by the statutes in the Missouri Employers Mutual Insurance Company Act, which created MEM in 1993. MEM is the market share leader for workers' compensation insurance in Missouri with a 14.4% share of 2007 direct written premiums. Approximately 1,000 independent insurance agencies are used to produce the Company's business.

Section 287.902 RSMo (Missouri Employers Mutual Insurance Company) requires that the Company shall give preference to Missouri employers with an annual premium of \$10,000 or less. As of December 31, 2007, 84% of MEM's policyholders had annual premiums of \$10,000 or less.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri DIFP has a market conduct staff that performs a review of these issues and generates a market conduct report. The most recent market conduct examination report covered the period from July 1, 2005 to June 30, 2006 and was issued in August 2007. The report did not disclose any control weaknesses, statutory violations, or other problems that would materially impact the Company's financial condition.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct Business	\$140,353,044	\$143,889,844	\$141,502,329
Reinsurance Assumed:			
Affiliates	0	0	0
Non-affiliates	1,918,357	3,579,727	4,397,409
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	<u>(13,761,241)</u>	<u>(12,153,295)</u>	<u>(8,519,990)</u>
Net Premiums Written	<u>\$128,510,160</u>	<u>\$135,316,276</u>	<u>\$137,379,748</u>

Assumed

All of the assumed business during the examination period was from Argonaut Insurance Company (Argonaut). MEM has some policyholders that have employees located outside of the State of Missouri. The Company is only licensed to write business in Missouri and therefore, a fronting arrangement with Argonaut is necessary to insure the out of state risks. Argonaut is the direct writer for these out of state risks and MEM assumes 100% of the business, pursuant to a reinsurance agreement with Argonaut, effective November 1, 2003.

The Company has no other active assumed business.

Ceded

The Company's reinsurance program consists primarily of excess of loss coverage and multi-layer catastrophe coverages. Separate reinsurance coverage is obtained for terrorism risks and aircraft risks. New reinsurance agreements are executed each year for all coverages on a calendar year basis.

Below is a summary of MEM's reinsurance coverages as of December 31, 2007:

<u>Agreement</u>	<u>Retention per Occurrence</u>	<u>Reinsurance Limit Excess of Retention</u>	<u>Aggregate Limit of Reinsurance</u>
Excess of Loss	\$ 1,000,000	\$ 6,000,000	\$ 18,000,000
1 st Layer Catastrophe	7,000,000	13,000,000	26,000,000*
2 nd Layer Catastrophe	20,000,000	30,000,000	60,000,000*
3 rd Layer Catastrophe	50,000,000	50,000,000	100,000,000*
Industrial Aid (Aircraft)	500,000	5,000,000	10,000,000*
Terrorism	7,000,000	21,000,000	21,000,000

* with payment of reinstatement premium

The Company's reinsurance program has changed little since the prior examination, as of December 31, 2004. The Company had an additional excess of loss layer in 2004 that reinsured \$500,000 of losses in excess of a \$500,000 retention per occurrence. This layer was eliminated in 2005 and MEM maintained a retention of the first \$1,000,000 of losses for all policies (excluding aircraft related incidents) until 2008. The limit for the industrial aid coverage has decreased since 2004 and the retention and limits for the terrorism coverage has increased since 2004. The remaining excess of loss agreement (\$6 million excess of \$1 million) and the catastrophe layers have not had any changes to retentions and limits.

The only change to the reinsurance program in 2008 was to increase the primary excess of loss retention from \$1,000,000 to \$1,500,000. The increases to the Company's level of retention in 2005 and in 2008 reflects the significant growth in MEM's capital and surplus and a resulting greater ability to absorb more risks from potential large dollar claims.

The Company utilizes various authorized and unauthorized reinsurers to cede risks. The table below lists the reinsurers in which MEM ceded the largest amount of premiums in 2007 and the largest loss reserves at December 31, 2007.

<u>Reinsurer</u>	<u>2007 Ceded Premiums</u>	<u>Percent of Total</u>	<u>Ceded Loss Reserves at 12/31/2007</u>	<u>Percent of Total</u>
National Union Fire Ins. Co. of Pittsburgh	\$ 0	0.0%	\$23,466,000	36.5%
Swiss Reinsurance America Corp.	1,685,000	19.8%	12,182,000	18.9%
Hannover Ruckversicherungs AG	721,000	8.5%	7,693,000	12.0%
MAX Re Ltd.	994,000	11.7%	5,572,000	8.7%
Odyssey America Reinsurance Corp.	853,000	10.0%	5,100,000	7.9%
Lloyd's Syndicate No. 2003	1,486,000	17.4%	646,000	1.0%
All Other Reinsurers	<u>2,781,000</u>	<u>32.6%</u>	<u>9,680,000</u>	<u>15.0%</u>
Total	<u>\$8,520,000</u>	<u>100.0%</u>	<u>\$64,339,000</u>	<u>100.0%</u>

The above reinsurers to which the largest amount of premiums were ceded in 2007 were all participants in the primary excess of loss agreement, which accounts for the majority of ceded premiums each year. National Union Fire Insurance Company of Pittsburgh had the largest amount of ceded reserves at December 31, 2007, but has not participated in MEM's reinsurance agreements since the 2004 loss year. The long-tailed nature of the Company's workers' compensation business is responsible for the slow development of the loss reserves.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

ACCOUNTS AND RECORDS

The CPA firm, Swink, Fiehler & Company, P.C., of St. Louis, Missouri, issued audited statutory financial statements of the Company for all years in the examination period.

The actuarial opinion regarding the Company's reserves for losses and loss adjustment expenses (LAE) was issued by John Herzfeld, FCAS, MAAA, of Milliman, Inc. in Wakefield, Massachusetts, for all years in the examination period.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Missouri Employers Mutual Insurance Company for the period ending December 31, 2007. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the “Notes to the Financial Statements.” The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets as of December 31, 2007

	<u>Assets</u>	Non- Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$264,959,059	\$ 0	\$264,959,059
Preferred Stocks	666,650	0	666,650
Common Stocks	25,868,231	0	25,868,231
Real Estate	15,324,440	0	15,324,440
Cash and Short-Term Investments	17,031,212	0	17,031,212
Investment Income Due and Accrued	2,386,394	0	2,386,394
Uncollected Premiums and Agents' Balances	13,191,583	2,924,259	10,267,324
Deferred Premiums	4,103,592	410,359	3,693,233
Accrued Retrospective Premiums	(169,486)	0	(169,486)
Amounts Recoverable from Reinsurers	1,648,000	0	1,648,000
EDP Equipment	2,020,657	1,794,105	226,552
Furniture and Equipment	2,615,383	2,615,383	0
Aggregate Write-In Assets:			
Automobiles	884,741	0	884,741
Other Assets Non-Admitted	1,495,925	1,495,925	0
Amounts Due on Deductible Claims	<u>4,859</u>	<u>0</u>	<u>4,859</u>
TOTAL ASSETS	<u>\$352,031,240</u>	<u>\$9,240,031</u>	<u>\$342,791,209</u>

**Liabilities, Surplus and Other Funds
as of December 31, 2007**

Losses	\$137,537,868
Reinsurance Payable on Paid Losses and LAE	668,808
Loss Adjustment Expenses	15,463,000
Commissions Payable	2,125,543
Other Expenses	9,313,127
Taxes, Licenses and Fees	520,149
Unearned Premiums	27,582,420
Advance Premium	2,595,656
Ceded Reinsurance Premiums Payable	930,707
Amounts Withheld or Retained	12,529,206
Payable to Parent, Subsidiaries and Affiliates	<u>39,208</u>
TOTAL LIABILITIES	\$209,305,692
Common Capital Stock	0
Surplus Notes	20,082,762
Gross Paid In and Contributed Surplus	0
Unassigned Funds (Surplus)	<u>113,402,755</u>
Capital and Surplus	<u>\$133,485,517</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$342,791,209</u>

Summary of Operations For the Year Ended December 31, 2007

Premium Earned	\$135,809,374
DEDUCTIONS:	
Losses Incurred	68,491,903
Loss Expenses Incurred	14,100,046
Other Underwriting Expenses Incurred	<u>45,464,828</u>
Total Underwriting Deductions	<u>\$128,056,777</u>
Net Underwriting Gain	\$ 7,752,597
 Net Investment Income Earned	 11,789,905
Net Realized Capital Gains	<u>2,107,974</u>
Net Investment Gain	\$ 13,897,879
 Other Income	 (278,253)
Federal Income Taxes Incurred	<u>0</u>
 Net Income	 <u>\$ 21,372,223</u>
 CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2006	\$113,583,639
Net Income	21,372,223
Change in Net Unrealized Capital Gains or (Losses)	(2,002,143)
Change in Non-Admitted Assets	531,799
Change in Surplus Notes	2,630
Aggregate Write-Ins for Gains and Losses in Surplus:	
Accrued Interest on Surplus Note	<u>(2,630)</u>
Change in Surplus as Regards Policyholders for the Year	<u>\$ 19,901,879</u>
Surplus as Regards Policyholders, December 31, 2007	<u>\$133,485,518</u>

Notes to the Financial Statements

None.

Examination Changes

None.

General Comments and/or Recommendations

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Employers Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CFE, Larry Kleffner, CFE, Shawn Hernandez, CFE, and Angela Campbell, CFE, CISA, examiners for the Missouri DIFP, participated in this examination. The firm of Lewis & Ellis, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
 County of Buchanan)

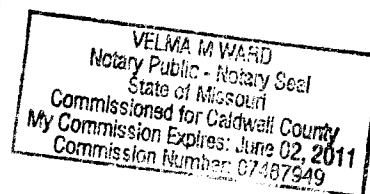
I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Missouri Employers Mutual Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim L. Tunks
 Tim L. Tunks, CPA, CFE
 Examiner-In-Charge
 Missouri DIFP

Sworn to and subscribed before me this 7th day of October, 2008.

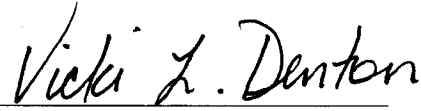
My commission expires: 6-2-11

Velma M. Ward
 Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink that reads "Vicki L. Denton". The signature is written in a cursive style with a horizontal line underneath the name.

Vicki L. Denton, CFE
Audit Manager
Missouri DIFP

November 20, 2008

RECEIVED
NOV 24 2008
DEPT. OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Mr. Frederick G. Heese
Chief Financial Examiner & Acting Division Director
Department of Insurance, Financial Institutions &
Professional Registration
301 West High Street
Room 530
Jefferson City, MO 65102-0690

Dear Mr. Heese:

This is in response to your letter of October 24, 2008 regarding the 2007 examination report of Missouri Employers Mutual Insurance Company. Management has reviewed the examination report including the absence of any General Comments or Recommendations on page 16. At this time Missouri Employers Mutual does not propose any changes to the examination report. Additionally, Missouri Employers Mutual would like this response to be included in the report as a public document.

Should you need anything else related to the 2007 examination, please contact me at the address below.

Sincerely,



Douglas S. Phillips
Corporate Controller

Missouri Employers Mutual
101 N. Keene St.
Columbia, MO 65201
573.499.9714
800.442.0590
Fax: 573.499.4210